

MARKET REPORT

Challenges & Opportunities for Privately Held Business

The pandemic has challenged business owners on a number of fronts, but as we head into Q2, the federal stimulus package/CARES Act and SBA disaster assistance – combined with other market factors – have business owners thinking beyond coronavirus and planning for the end of the shutdown.

While rental growth will flatten in the coming months, rates will not drop drastically in the short term. It took roughly three years for rental rates to hit the bottom following the 2008/2009 recession.

What we will see is good value in subleases flooding the market. With the right sublet term length, privately held businesses can take advantage of plug-and-play spaces that have build-outs in place, along with furniture, and data infrastructure. Flexibility and cash will be king. Ready-to-go spaces will allow business owners the opportunity to hold onto their cash. We

also anticipate many Landlords continuing to build spec spaces in order to offer tenants ready built spaces at flexible terms. Those will be competing with subleases, which in turn should provide for more competitive direct rent pricing. We speculate that well capitalized Landlords will be in a great position to “buy” deals for deserving businesses. The similarity between this event and any other economic event is simple – well capitalized Landlords and Tenants will benefit dramatically in the near term.

Beware of the potential for lease restructures, referred to as “blend and extend” now, under the guise of immediate rent relief. These deals are typically tied to extending out your existing lease obligation, so when rental rates decrease, you will be locked into longer terms, at higher rates. Patience during this trying time will pay dividends.

Looking Ahead

According to a survey of CFOs and finance leaders by Gartner, some CFOs are planning to shift at least some of their onsite workforce to remote positions. The CFOs and owners we talk to disagree – citing culture and collaboration as key drivers to their business success, innovation and growth.

For the suburban market, the pandemic could be a boon. Businesses may start to rethink density and higher costs in the city; opting for a satellite office in the city, with headquarters in less populated areas.

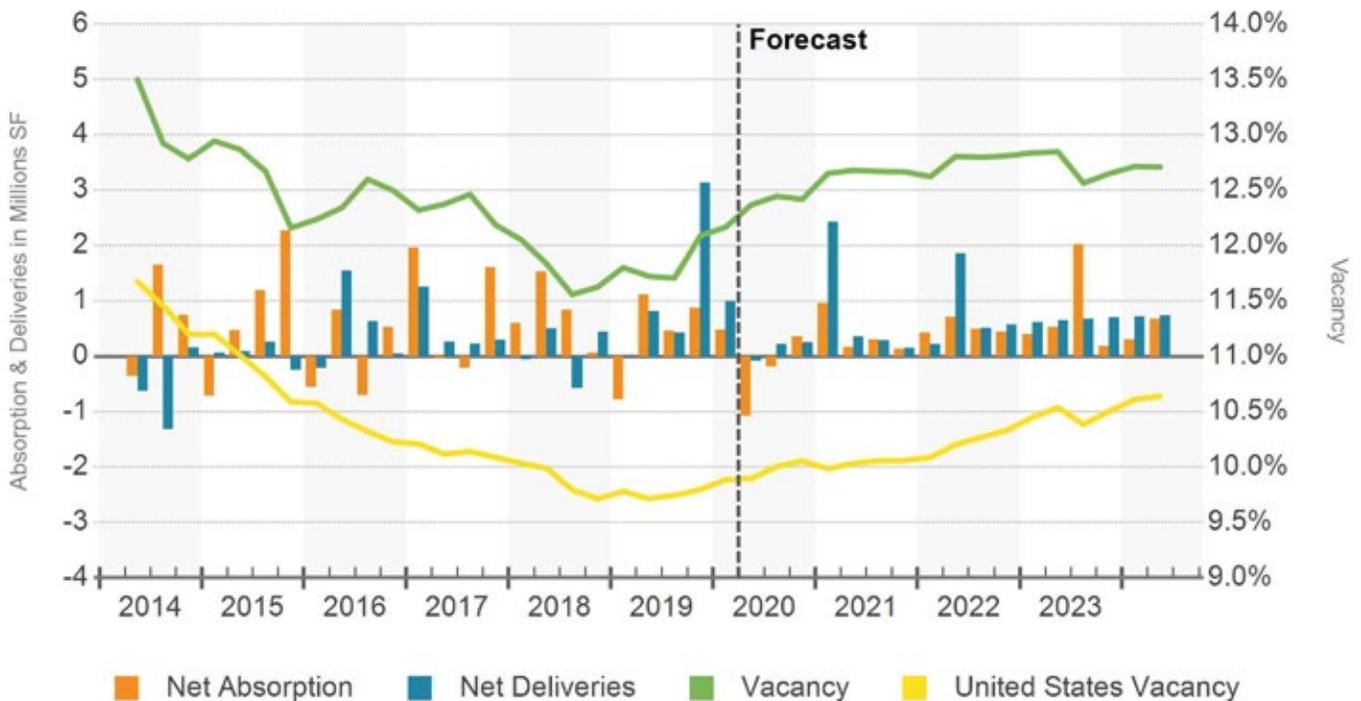
12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
5.7 M	2.6 M	12.2%	2.4%

KEY INDICATORS

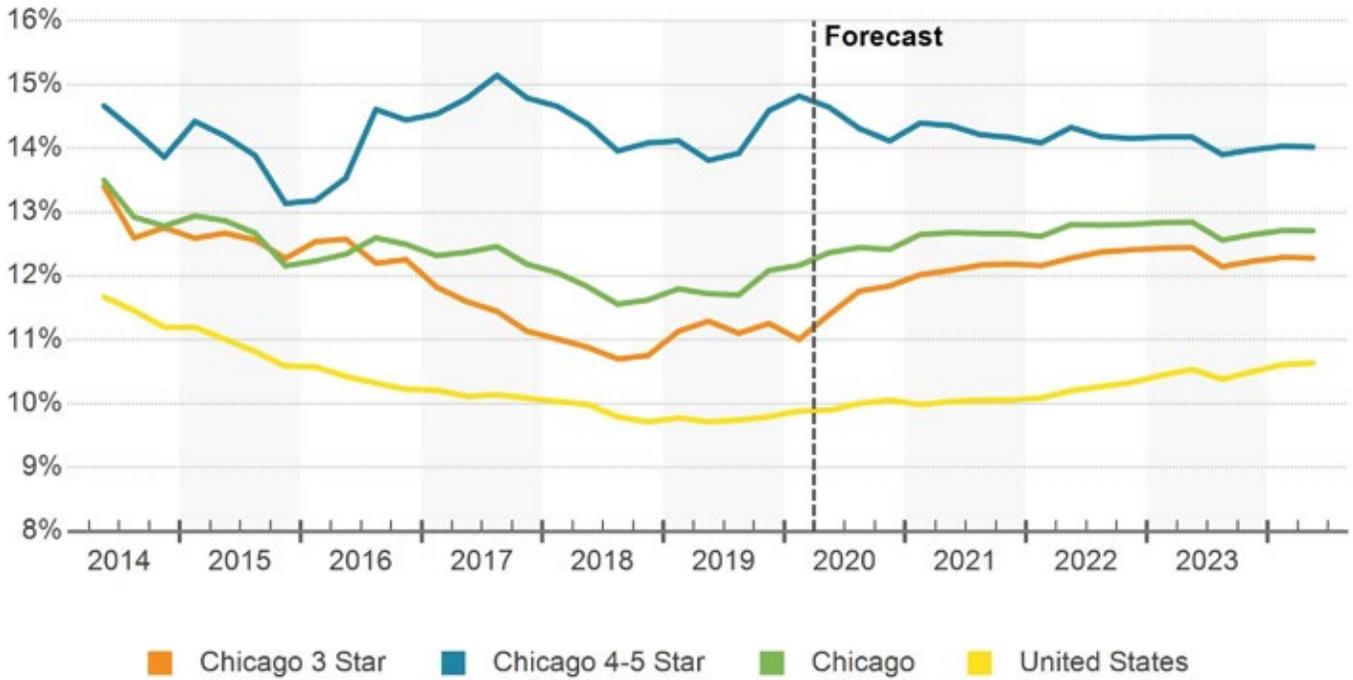
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	220,654,223	14.9%	\$37.79	19.7%	(132,762)	0	5,757,945
3 Star	200,718,313	11.0%	\$23.90	13.8%	26,569	3,936	526,511
1 & 2 Star	76,011,291	7.6%	\$18.67	10.2%	(75,521)	0	77,840
Market	497,383,827	12.2%	\$29.35	15.9%	(181,714)	3,936	6,362,296

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.4%	12.2%	12.7%	15.2%	2010 Q1	7.3%	1999 Q2
Net Absorption SF	2.6 M	2,357,191	1,751,390	10,528,991	1998 Q1	(9,438,021)	2009 Q3
Deliveries SF	5.7 M	4,388,606	3,582,664	11,567,415	2001 Q3	529,786	2011 Q3
Rent Growth	2.4%	2.2%	0.7%	8.9%	1998 Q3	-5.9%	2009 Q4
Sales Volume	\$2.6 B	\$4.1B	N/A	\$9.6B	2007 Q3	\$640.8M	2010 Q1

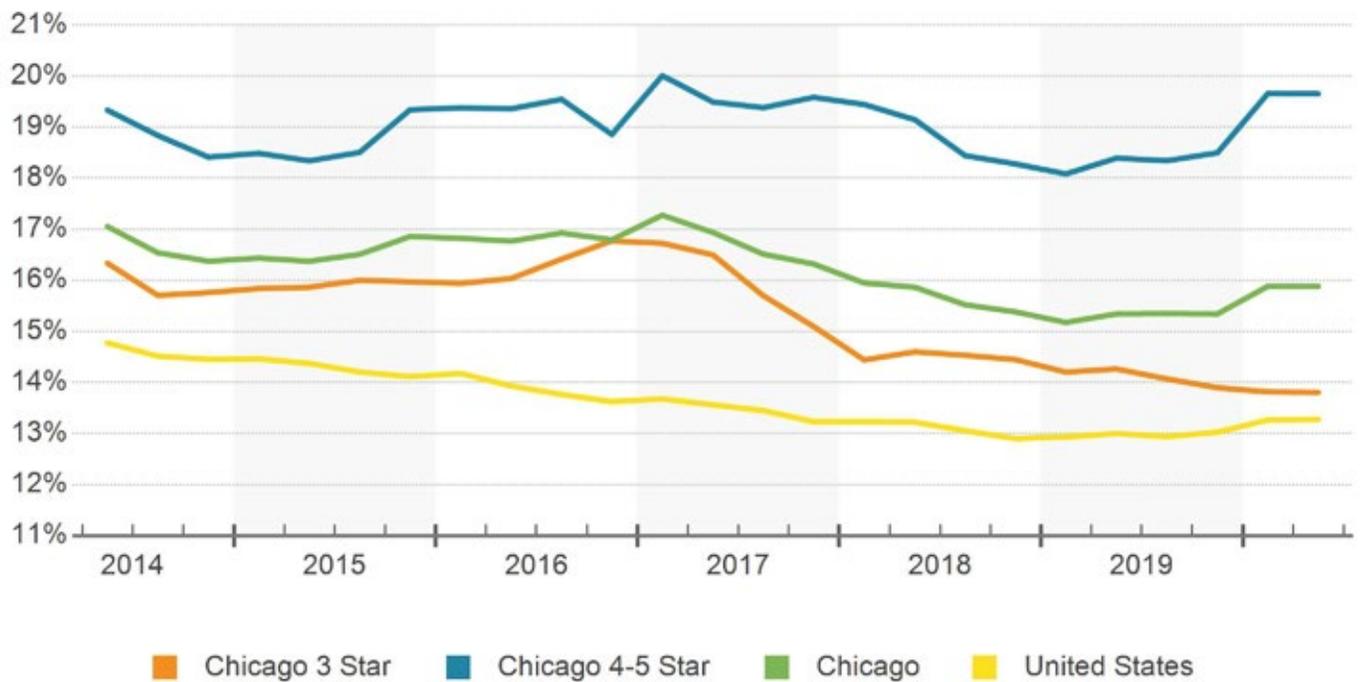
NET ABSORPTION, NET DELIVERIES & VACANCY



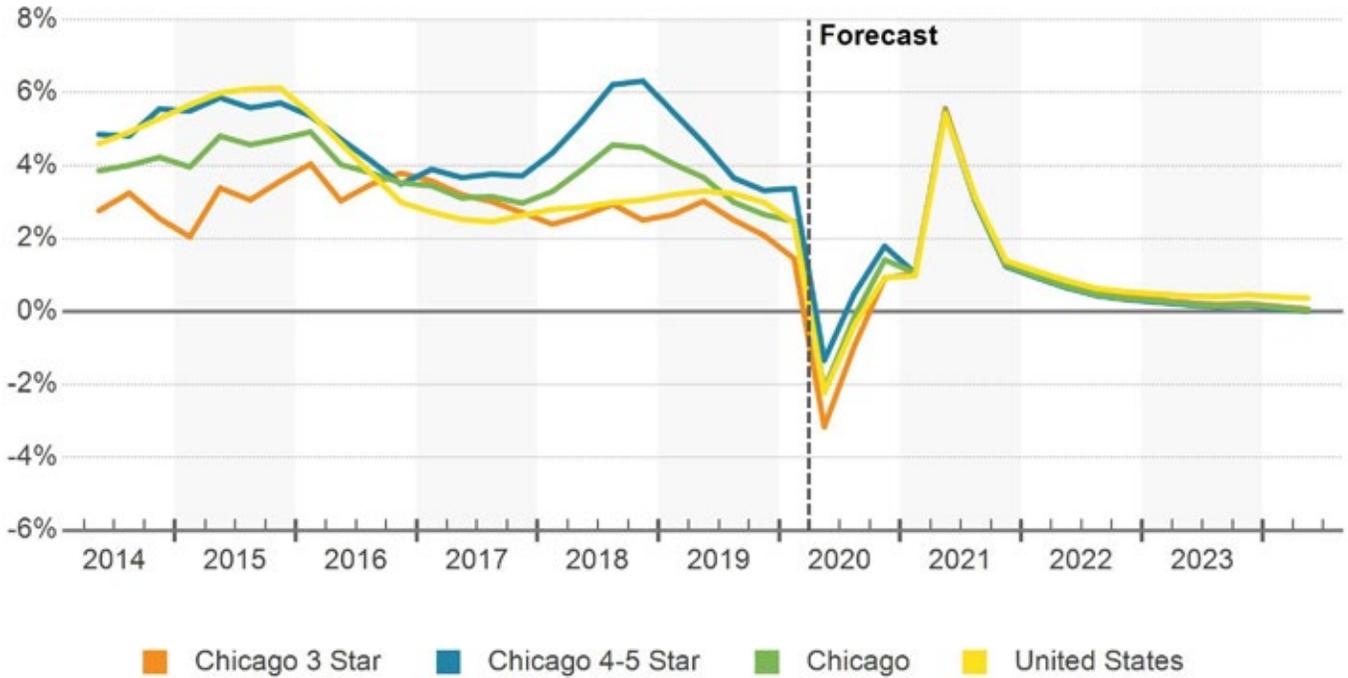
VACANCY RATE



AVAILABILITY RATE



MARKET RENT GROWTH (YOY)



For any business owner that is being sold on rent relief or abatement from a broker, tread very carefully.

Now is not the time for a broker to directly insert themselves into your relationship with your landlord.

We paid our April rent and will pay again in May. **We'd love to explain why.**